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TAGS: [EAID](#) [ECON](#) [AID](#) [EFIN](#) [PREL](#) [CB](#)

SUBJECT: CAMBODIA COMMITTED TO IMPROVED FISCAL TRANSPARENCY

REF: A. STATE 01923

[1](#)B. 09 PHNOM PENH 816

SENSITIVE BUT UNCLASSIFIED

[1](#)1. (U) Per Ref A's request for information regarding fiscal transparency, posts response is below.

#### Reforming the Public Financial Management System

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[1](#)2. (U) The Royal Government of Cambodia (RGC) is committed to greater financial accountability and transparency. The RGC has undertaken an ambitious and comprehensive Public Financial Management Reform Program (PFMRP) to bring Cambodia's PFM system in line with international standards. The PFMRP is supported by the World Bank, Asia Development Bank, and International Monetary Fund, as well as a number of development partners. The first stage of the PFRM sought to bring greater credibility to the budget. The second stage of PFMRP, begun in 2009, focuses on achieving greater financial transparency and accountability. In 2009 the RGC completed and issued a Public Expenditure Financial Accountability Framework (PEFA) report, which provided an objective, factual assessment of all PFM systems and demonstrated a willingness on the part of the RGC to subject its PFM systems to outside scrutiny. The PEFA report identified improvements in strengthening the credibility of the budget (to ensure that the budget is realistic and implemented as intended), but also identified deficiencies in both the comprehensiveness of the budget and availability of information to the public. Under the PFMRP, the MEF is adopting measures to address these deficiencies.

#### Recipient of SFOAA

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[1](#)3. (U) The Royal Government of Cambodia is a recipient of U.S. foreign assistance funded under FY 2010 SFOAA.

#### Publicly-Available Budget

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[1](#)4. (SBU) The PEFA report noted that greater transparency and comprehensiveness of information available to the public could induce better financial accountability. The Ministry of Economy and Finance (MEF) makes publicly available the national budget. However, only the Budget Speech is available to the public (available on the MEF's website at [www.mef.gov.kh](http://www.mef.gov.kh)) prior to the submission of the national budget to the National Assembly for approval. Once the budget is approved by the National Assembly, Senate, and then promulgated by the King, the Budget Law and supporting documentation (including a summary and the full budget) are available to the public. Copies can be obtained directly from the MEF. The budget is not yet available on the internet. (NOTE: The budget for 2010 which was approved late 2009, will not be published for the public until April 2010. END NOTE.) Monthly in-year budget execution reports are available to the public and published on the internet. These reports are available for purchase, in both soft and hard copy, from the Department of

Economic and Public Finance Policy, MEF, and can be found at [www.mef.gov.kh/share.php](http://www.mef.gov.kh/share.php). The IMF 2009 Article IV Staff Report noted that the monthly fiscal reporting suffers from inconsistencies as well as occasional delays and incompleteness.

15. (SBU) The annual Budget Settlement Report (BSR) is reviewed and approved by the National Assembly and published in late January or February for the previous year. However, there is a significant delay in conducting audits of the BSR - the audit for the 2006 BSR was completed in 2009 - and the audit reports are not currently available to the public.

#### Credibility and Comprehensiveness of the Budget

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16. (SBU) The credibility of the budget has strengthened in recent years due to progress achieved under the first stage of the PFMRP which focused on improving budget credibility. Incomes and expenditures are included in the publically-available budget. However, the publically-available budget does not appear to include all non-tax revenues (such as revenue from airlines, tourism, telecommunications, TV/Radio licenses, visa fees, concessions, and penalties), extra-budgetary public sector operations (including government-owned public sector entities), and public institutes (semi-autonomous agencies reporting to the line ministries). The extra-budgetary organizations are required to submit an annual budget to their supervisory organization (ministry), provide monthly budget execution reports (financial statements), and conduct an annual audit. The PEFA report confirmed that extra-budgetary organizations are complying with these requirements. Also, the subsidies provided by the government to public institutions are included within the budget of the supervising ministry. However, those institutions are not required to submit annual budgets for all of their resources and requirements, nor do they appear to submit in-year financial reports. Additionally, data on donor-financed capital spending is not yet available at a sufficiently refined level, according to the PEFA report.

#### RGC Reform Efforts

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17. (U) Under the PFMRP, the RGC plans to improve the forms of reporting and communicating with the public, and expects by the end of 2010 to provide public access to budget documents, in-year budget reports, year-end fiscal statements, and external audit reports, among others.

18. (U) The RGC has initiated the following projects under the PFMRP which will improve the comprehensiveness and transparency of the budget: incorporation of all budget entities and extra-budgetary operations into the annual budget and financial reports, development of a new Chart of Accounts and Budget classification system; introduction of a new IT-based Public Financial Management Information System (PFMIS); and expansion of use and quality of results-oriented program and strategic budgeting systems.

19. (U) The RGC has acknowledged these deficiencies and need for improvement and has enacted laws requiring full budget and expenditure disclosure for the government-owned public sector entities and institutes. The PFMRP includes projects that address this issue for the identification of all budget entities, including those that are presently extra-budgetary organizations. The goal, according to the PFMRP, is to "ensure that auxiliary budgets of industrial and commercial enterprises and autonomous budgets of public administrative institutions are included in the budget in line with existing provisions of the Budget Law, which provides an annual budget law to approve such budgets." Work is currently underway to develop a sub-decree for the preparation of budgets and financial reports for these entities. A mechanism to fully incorporate expenditures and revenues into the annual budget will also be developed.

#### USG Technical Assistance and Work Plan

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110. (U) Through Post's engagement with the RGC to promote greater fiscal transparency, the MEF requested technical assistance to improve its budgeting process, and in October 2009, U.S. Department

of Treasury, Office of Technical Assistance (OTA) placed a full-time Budget and Accountability Resident Advisor with the Budget Department in the MEF, to assist with budgeting issues and support needed reforms under the PFMRP. The Advisor and the MEF have developed a Work Plan which includes several projects to address the deficiencies outlined above and improve transparency and accountability of the budget.

¶11. (SBU) One Treasury-assisted project will improve budget comprehensiveness through the inclusion of extra-budget public organizations as well as providing documentation of all budget entities. This will include documenting current laws and systems for these organizations and formulating guidelines for the preparation and execution of budgets. Another project will assist the development of a new budget classification that complies with international standards which will significantly improve budget information available to decision makers as well as to the public. Additionally, the Advisor will work with the MEF to revise financial management and budget frameworks to improve financial accountability of all agencies and will assist the Budget Department in the implementation of the PFMIS, which is an automated system to create a uniform budgeting and financial reporting system for all governmental operations, and thereby greatly enhancing the Budget Department's ability to produce timely financial information. The Advisor will also assist to improve results-oriented budgeting in order to improve preparation and execution guidelines for all budget systems. Through this Work Plan, the Advisor will also improve the competency of Budget Department and spending agency staff to insure successful implementation and execution of reforms.

#### Other USG Financial Reform Efforts

¶12. (SBU) Other efforts to promote financial reform include U.S. Treasury full-time resident advisory services to the National Bank of Cambodia (NBC) focused on improving the capacity of the central bank to conduct assessments and audits of the financial condition of banks. Similarly, part-time intermittent U.S. Treasury advisors are working within the General Department of Taxation, MEF, to improve tax collection and auditing systems. Finally, U.S. Treasury has assigned an intermittent advisor to work with the RGC and the NBC on financial enforcement issues, such as counterfeiting and money laundering.

¶13. (SBU) In addition to drawing on the expertise of the Budget Advisor to assist the RGC undertake necessary reforms to improve fiscal transparency, Post will continue to engage the RGC at the highest levels to encourage the political commitment for the adoption of policies and measures necessary to promote greater fiscal transparency.

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